

prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade, and thereby will provide investors with the ability to invest in warrants based on additional indexes.

**B. Self-Regulatory Organization's Statement on Burden on Competition**

The Exchange believes the proposed rule change will impose no burden on competition.

**C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others**

The Exchange has neither solicited nor received written comments on the proposed rule change.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within 35 days of the publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR-CBOE-95-67 and should be submitted by December 27, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

Margaret H. McFarland,

*Deputy Secretary.*

[FR Doc. 95-29690 Filed 12-5-95; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-36439A; File No. SR-CBOE-95-56]

**Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Chicago Board Options Exchange, Inc., Relating to Modifications of the Position and Exercise Limits for Narrow-Based Index Options**

November 30, 1995.

**Correction**

In FR Document No. 95-27424, beginning on page 56075, column 1, for Monday, November 6, 1995, a phrase in footnote number three was incorrectly stated. The first part of footnote number three is corrected to read:

Under CBOE Rule 24.4A, the current position limits for industry index options are as follows: (1) 5,500 contracts if the CBOE determines in its semi-annual review that any single underlying stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; . . .<sup>1</sup>

The remainder of footnote number three remains unchanged.

In addition, the position limits for the Standard & Poor's ("S&P") Chemical Index and the S&P Retail Index were incorrectly stated as 5,500 contracts. The position limits for both the S&P Chemical Index and the S&P Retail Index are revised to be stated as 7,500 contracts.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

Margaret H. McFarland,

*Deputy Secretary.*

[FR Doc. 95-29692 Filed 12-5-95; 8:45 am]

BILLING CODE 8010-01-M

<sup>9</sup> 17 CFR 200.30-3(a)(12) (1994).

<sup>1</sup> 17 CFR 200.30-3(a)(12) (1994).

[Release No. 34-36527; International Series Release No. 891; File No. SR-Amex-95-43]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 thereto by the American Stock Exchange, Inc. Relating to Index Fund Shares**

November 29, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on October 26, 1995, the American Stock Exchange, Inc. ("Amex" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Amex. On November 14, 1995, the Amex filed Amendment No. 1 to its proposal.<sup>2</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The Amex proposes to list and trade under Amex Rules 1000A *et seq.* Index Fund Shares, which are shares issued by an open-end management investment company that seeks to provide investment results that correspond generally to the price and yield performance of a specified foreign or domestic equity market index.

**II. Self-Regulatory Organization's Statement of the Purpose of and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections (A), (B) and (C) below, of the most significant aspects of such statements.

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> In Amendment No. 1, the Amex states that any broker-dealer handling transactions for customers in "World Equity Benchmark Securities" (or "WEBS") will have an obligation to deliver to such customers a prospectus regarding WEBS pursuant to the requirements of the Securities Act of 1933. Amendment No. 1 also states that prior to listing series of Index Fund Shares for indices other than those described in the present rule filing, it will make an appropriate filing pursuant to Rule 19b-4 under the Act. Letter from James F. Duffy, Executive Vice President and General Counsel, Legal Chief, Office of Market Supervisor, Division of Market Regulation, Commission, dated November 14, 1995 ("Amendment No. 1").

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Introduction

The Amex proposed to list and trade under Rules 1000A *et seq.* Index Fund Shares issued by an open-end management investment company ("Fund") that seeks to provide investment results that correspond generally to the price and yield performance of a specified foreign or domestic equity market index. Index Fund Shares will be issued by an entity registered with the Commission as an open-end management investment company, and which may be organized as a series fund providing for the creation of separate series of securities, each with a portfolio consisting of some or all of the component securities of a specified securities index. A Fund may be managed so as to permit the purchase or sale of certain securities in the underlying portfolio in an effort to track, to the extent desired, the relevant securities index. A Fund may establish tracking tolerances which will be disclosed in the prospectus for a particular Fund or series thereof. Such Fund or series normally will not replicate exactly a specific index, but instead will seek to track an index within the tolerances stated in the prospectus.

Issuances of Index Fund Shares by a Fund will be made only in minimum Creation Unit size aggregations or multiples thereof. The size of the applicable Creation Unit size aggregation will be set forth in the Fund's prospectus and will vary from one series of Index Fund Shares to another, but generally will be of substantial size (e.g., value in excess of \$500,000 per Creation Unit). It is expected that a Fund will issue and sell Index Fund Shares through a principal underwriter ("Distributor") on a continuous basis at the net asset value per share next determined after an order to purchase Index Fund Shares in Creation Unit size aggregations is received in proper form. Following issuance, Index Fund Shares would be traded on the Exchange like other equity securities by professionals, as well as retail and institutional investors.

It is expected that Creation Unit size aggregations of Index Fund Shares generally will be issued in exchange for the "in kind" deposit of a specified portfolio of securities, together with a cash payment representing, in part, the amount of dividends accrued up to the time of issuance. It is anticipated that such deposits will be made primarily by

institutional investors, arbitrageurs, and the Exchange specialist. Redemption of Index Fund Shares generally will be made "in kind," with a portfolio of securities and cash exchanged for Index Fund Shares that have been tendered for redemption. Issuance or redemptions also could occur for cash under specified circumstances (e.g., if it is not possible to effect delivery of securities underlying the specific series in a particular foreign country) and at other times in the discretion of the Fund.

It is expected that a Fund will make available on a daily basis a list of the names and the required number of shares of each of the securities to be deposited in connection with issuance of Index Fund Shares of a particular series in Creation Unit size aggregations, as well as information relating to the required cash payment representing, in part, the amount of accrued dividends.

A Fund make periodic distributions of dividends from net investment income, including net foreign currency gains, if any, in an amount approximately equal to accumulated dividends on securities held by the Fund during the applicable period, net of expenses and liabilities for such period.

Index Fund Shares will be registered in book entry form through The Depository Trust Company. Trading in Index Fund Shares on the Exchange may be effected until 4:15 p.m. (New York time) each business day.

Index Fund Shares initially to be listed on the Exchange will be series ("Index Series") of World Equity Benchmark Shares issued by Foreign Fund, Inc., and based on the following Morgan Stanley Capital International ("MSCI") Indices ("MSCI Indices" or "Indices"); MSCI Australia Index; MSCI Belgium Index; MSCI Canada Index; MSCI France Index; MSCI Germany Index; MSCI Hong Kong Index; MSCI Italy Index; MSCI Japan Index; MSCI Malaysia Index; MSCI Mexico Index; MSCI Netherlands Index; MSCI Singapore (Free) Index; MSCI Spain Index; MSCI Sweden Index; MSCI Switzerland Index; and MSCI United Kingdom Index.<sup>3</sup>

Foreign Fund, Inc. will issue and redeem WEBS of each Index Series only in aggregations of shares specified for each Index Series. The following table sets forth the number of shares of an Index Series that it is anticipated will constitute a Creation Unit for such Index Series:

Index series	Shares per creation unit
Australia Index Series .....	75,000
Austria Index Series .....	40,000
Belgium Index Series .....	40,000
Canada Index Series .....	75,000
France Index Series .....	75,000
Germany Index Series .....	250,000
Hong Kong Index Series .....	40,000
Italy Index Series .....	40,000
Japan Index Series .....	250,000
Malaysia Index Series .....	75,000
Mexico Index Series .....	75,000
Netherlands Index Series .....	75,000
Singapore (Free) Index Series .....	75,000
Spain Index Series .....	40,000
Sweden Index Series .....	75,000
Switzerland Index Series .....	75,000
United Kingdom Index Series .....	75,000

3. The MSCI Indices<sup>4</sup>

General

The Indices were founded in 1969 by Capital International S.A. as the first international performance benchmarks constructed to facilitate accurate comparison of world markets. Morgan Stanley acquired rights to the Indices in 1986. The MSCI Indices have covered the world's developed markets since 1969, and in 1988, MSCI commenced coverage of the emerging markets.

Although local stock exchanges traditionally have calculated their own indices, these generally are not comparable with one another, due to differences in the representation of the local market, mathematical formulas, base dates, and methods of adjusting for capital changes. MSCI applies the same criteria and calculation methodology across all markets for all indices, developed and emerging.

MSCI generally seeks to have 60% of the capitalization of a country's stock market reflected in the MSCI Index for such country. Thus, the MSCI Indices balance the inclusiveness of an "all share" index against the replicability of a "blue chip" index.

Weighting

All single-country MSCI Indices are market capitalization weighted, *i.e.*, companies are included in the indices at their full market value (total number of shares issued and paid up, multiplied by price). For countries that restrict foreign ownership, MSCI calculates two indices. The additional indices are called "free" indices, and they exclude companies and share classes not purchasable by foreigners. Free indices currently are calculated for Singapore, Mexico, the Philippines, and Venezuela,

<sup>3</sup> The Exchange has stated that it will make an appropriate filing pursuant to Rule 19b-4 under the Act prior to listing series of Index Fund Shares for indices other than those described in the present proposal. Amendment No. 1, *supra* note 2.

<sup>4</sup> The description of the MSCI Indices was prepared by Foreign Fund, Inc.

and for those regional and international indices which include such markets.

#### Selection Criteria

The constituents of a country index are selected from the full range of securities available in the market, excluding issues which are either small or highly illiquid. Non-domiciled companies and investment trusts are also excluded from consideration. After the index constituents are chosen, they are reclassified using MSCI's schema of 38 industries and eight economic sectors to facilitate cross-country comparisons.

The process of choosing index constituents from the universe of available securities is consistent among indices. Determining the constituents of an index is an optimization process which involves maximizing float and liquidity, reflecting accurately the market's size and industry profiles, and minimizing cross-ownership.

To reflect accurately country-wide performance, MSCI aims to capture 60% of total market capitalization at both the country and industry level. To reflect local market performance, an index should contain a percentage of the market's overall capitalization sufficient to achieve a high level of tracking. The greater the coverage, however, the greater the risk of including securities which are illiquid or have restricted float. MSCI's 60% coverage target seeks to balance these considerations.

Within the overall target of 60% market coverage, MSCI aims to capture 60% of the capitalization of each industry group, as defined by local practice. MSCI believes this target assures that the index reflects the industry characteristics of the overall market and permits the construction of accurate industry indices.

MSCI may exceed the 60% of market capitalization target in the index for a particular country because, *e.g.*, one or two large companies dominate an industry. Similarly, MSCI may underweight an industry in an index if, *e.g.*, the companies in such industry lack good liquidity and float, or because of extensive cross-ownership.

Liquidity is measured by trading value, as reported by the local exchanges. Trading value is monitored over time to determine "normal" levels exclusive of short-term peaks and troughs. A stock's liquidity is significant not only in absolute terms (*i.e.*, a determination of the market's most actively traded stocks), but also relative to its market capitalization and to average liquidity for the country as a whole.

Float, or the percentage of shares freely tradeable, is one measure of potential short-term supply. Low float raises the risk of insufficient liquidity. MSCI monitors float for every security in its coverage, and low float may exclude a stock from consideration. However, float can be difficult to determine. In some markets good sources generally are not available. In other markets, information on smaller and less prominent issues can be subject to error and time lags. Government ownership and cross-ownership positions can change over time, and are not always made public. Float also tends to be defined differently depending on the source. MSCI seeks to maximize float. As with liquidity, float is an important determinant, but not a hard-and-fast screen, for inclusion of a stock in, or exclusion of a stock from, a particular index.

Cross-ownership occurs when one company has an ownership position in another. In situations where cross-ownership is substantial, including both companies in an index can skew industry weights, distort country-level valuations and overrepresent buyable opportunities. An integral part of MSCI's country research is identifying cross-ownerships to avoid or minimize inclusion of both companies in an index. Cross-ownership cannot always be avoided, especially in markets where it is prevalent. When MSCI makes exceptions, it seeks to select situations where the constituents operate in different economic sectors, or where the subsidiary company makes only a minor contribution to the parent company's results.

MSCI attempts to meet its 60% coverage target by including a representative sample of large, medium and small capitalization stocks, to capture the sometimes disparate performance of these sectors. In the emerging markets, the liquidity of smaller issues can be a constraint. At the same time, properly representing the lower capitalization end of the market risks overwhelming the index with names. Within these constraints, MSCI strives to include smaller capitalization stocks, provided they exhibit sufficient liquidity.

#### Calculation Methodology

All MSCI Indices are calculated daily using Laspeyres' concept of a weighted arithmetic average together with the concept of "chain-linking," a classical method of calculating stock market indices. The Laspeyres method weighs stocks in an index by their beginning-of-period market capitalization. Share prices are "swept clean" daily and

adjusted for any rights issues, stock dividends or splits. The MSCI Indices currently are calculated in local currency and in U.S. dollars, without dividends and with gross dividends reinvested (*e.g.*, before withholding taxes).

In respect of developed markets, MSCI Indices with dividends reinvested constitute an estimate of total return arrived at by reinvesting one-twelfth of the month end yield at every month end.

In respect of emerging markets, MSCI has constructed its indices with dividends reinvested as follows:

- In the period between the ex-date and the date of dividend reinvestment, a dividend receivable is a component of the index return.
- Dividends are deemed received on the payment date.
- To determine the payment date, a fixed time lag is assumed to exist between the ex-date and the payment date. This time lag varies by country, and is determined in accordance with general practices within that market.
- Reinvestment of dividends occurs at the end of the month in which the payment date falls.

#### Price and Exchange Rates

Prices used to calculate the MSCI Indices are the official exchange closing prices. All prices are taken from the dominant exchange in each market. In countries where there are foreign ownership limits, MSCI uses the price quoted on the official exchange, regardless of whether the limit has been reached.

MSCI uses WM/Reuters Closing Spot Rates for all developed and emerging markets except those in Latin America. The WM/Reuters Closing Spot Rates were established by a committee of investment managers and data providers, including MSCI, whose object was to standardize exchange rates used by the investment community. Exchange rates are taken daily at 4 p.m. London time by the WM Company and are sourced whenever possible from multi-contributor quotes on Reuters. Representative rates are selected for each currency based on a number of "snapshots" of the latest contributed quotations taken from the Reuters service at short intervals around 4 p.m. WM/Reuters provides closing bid and offer rates. MSCI uses these to calculate the mid-point to 5 decimal places.

MSCI continues to monitor exchange rates independently and may, under exceptional circumstances, elect to use an alternative exchange rate if the WM/Reuters rate is believed not to be representative for a given currency on a

particular day. Because of the high volatility of currencies in some Latin American countries, MSCI continues to use its own timing and sources for these markets.

#### Changes to the Indices

In changing the constituents of the indices, MSCI attempts to balance representativeness versus undue turnover. An index must represent the current state of an evolving marketplace, yet minimize turnover, which is costly as well as inconvenient for managers.

There are two broad categories of changes to the MSCI Indices. The first consists of market-driven changes such as mergers, acquisitions, bankruptcies, etc. These are announced and implemented as they occur. The second category consists of structural changes to reflect the evolution of a market, including changes in industry composition or regulations. In the emerging markets, index restructurings generally take place every 12 to 18 months. Structural changes may occur only on four dates during the year: the first business days of March, June, September and December. They are preannounced at least two weeks in advance.

Restructuring an index involves a balancing of additions and deletions. To maintain continuity and minimize turnover, MSCI is reluctant to delete index constituents, and its approach to additions is correspondingly stringent. As markets grow because of privatizations, investor interest, or the relaxation of regulations, index additions (with or without corresponding deletions) may be needed to bring industry representations up to the 60% target. Companies are considered not only with respect to their broad industry, but also with respect to their subsector, so as to reflect if possible a broader range of economic activity. Beyond industry representativeness, new constituents are selected based on the criteria discussed above, i.e. float, liquidity, cross-ownership, etc.

In general, new issues are not eligible for immediate inclusion in the MSCI Indices because their liquidity remains unproven. Usually, new issues undergo a "seasoning" period of one year to 18 months between index restructurings until a trading pattern and volume are established. After that time, they are eligible for inclusion, subject to the criteria discussed above.

In the emerging markets, however, it is not uncommon that a large new issue, usually a privatization, comes to market and substantially changes the country's industry profile. In exceptional

circumstances, where an issue's size, visibility and investor interest assure high liquidity, and where excluding it would distort the characteristics of the market, MSCI may decide to include it immediately in an Index. In other cases, MSCI may decide not to include a large new issue even in the normal process of restructuring, and in spite of substantial size and liquidity.

MSCI's primary concern when considering deletions is the continuity of the Indices. Of secondary concern are the turnover costs associated with deletions. The Indices must represent the full investment cycle, including bear as well as bull markets. Out-of-favor stocks may exhibit declining price, market capitalization or liquidity, and yet continue to be good representatives of their industry.

Companies may be deleted because they have diversified away from their industry classification, because the industry has evolved in a different direction from the company's thrust, or because a better industry representative exists (either a new issue or an existing company). In addition, in order not to exceed the 60% target coverage of industries and countries, adding new index companies may entail corresponding deletions. Usually such deletions take place within the same industry, but there are occasional exceptions.

#### 3. Criteria for Initial and Continued Listing

Because of the open-end nature of Funds issuing Index Fund Shares, the Exchange believes it is necessary to maintain appropriate flexibility in connection with the listing of Index Fund Shares of a particular Fund or series thereof. In connection with initial listing, the Exchange will establish a minimum number of Index Shares required to be outstanding at the time of commencement of Exchange trading. For each series of Index Fund Shares, it is anticipated that a minimum of the equivalent of three Creation Units will be required to be outstanding when trading begins.

Each series of Index Fund Shares will be subject to the initial and continued listing criteria of Rule 1002A(b) which provides that following the initial twelve month period following commencement of Exchange trading of a series of Index Fund Shares, the Exchange will consider suspension of trading in, or removal from listing of, such series under any of the following circumstances:

(a) if there are fewer than 50 beneficial holders of the series of Index

Fund Shares for 30 or more consecutive trading days; or

(b) if the value of the index or portfolio of securities on which the series of Index Fund Shares is based is no longer calculated or available; or

(c) if such other event shall occur or condition exists which, in the opinion of the Exchange, makes further dealings on the Exchange inadvisable.

The Exchange will require the Index Fund Shares be removed from listing upon termination of the Fund that issued such shares.

#### 4. Trading Halts

Prior to commencement of trading in Index Fund Shares, the Exchange will issue a circular to members informing them of Exchange policies regarding trading halts in such securities. The circular will make clear that, in addition to other factors that may be relevant, the Exchange may consider factors such as those set for in Rule 918C(b) in exercising its discretion to halt or suspend trading. These factors would include: (1) for Index Fund Shares based on a domestic stock index, whether trading has been halted or suspended in the primary market(s) for any combination of underlying stocks accounting for 20% or more of the applicable current index group value; (2) for Index Fund Shares based on a foreign stock index, whether trading has been halted or suspended market-wide in the applicable foreign market; or (3) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.

#### 5. Terms and Characteristics

Prior to commencement of trading of a series of Index Fund Shares, the Exchange will distribute to Exchange members and member organizations an Information Circular calling attention to characteristics of the specific series and to applicable Exchange rules. The circular also will inform member organizations regarding any applicable requirements for delivery of a prospectus to investors. The Amex has stated that any broker-dealer handling transactions for customers in WEBS will have an obligation to deliver to such customers a prospectus regarding WEBS pursuant to the requirements of the Securities Act of 1933.<sup>5</sup>

<sup>5</sup> Amendment No. 1, *supra* note 2. The Amex also states that in the event that it obtains an exemption from the prospectus delivery requirements in the future with respect to WEBS or to the other series of Index Fund Shares listed on the Exchange, the Exchange will consult with Commission staff and will file any necessary rule changes. *Id.*

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it is designed to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transaction in securities, and, in general protect investors and the public interest.

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

The Amex believes that the proposed rule change will not impose any burden on competition.

*(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others*

Written comments on the proposed rule change were neither solicited nor received.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (a) by order approve such proposed rule change, or
- (b) institute proceedings to determine whether the proposed rule change should be disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street NW., Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in

the Commission's Public Reference Section, 450 Fifth Street NW., Washington, DC. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to File No. SR-Amex-95-43 and should be submitted by December 27, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority<sup>6</sup>  
Margaret H. McFarland,  
Deputy Secretary.

[FR Doc. 95-29691 Filed 12-5-95; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-36526; File No. SR-PSE-95-28]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Stock Exchange, Inc., Relating to Establishing a Hedge Exemption for Narrow-Based Index Options**

November 29, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on November 1, 1995, the Pacific Stock Exchange, Inc., ("PSE" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The PSE proposes to amend PSE Rule 7.6, "Position Limits for Index Options," to establish a hedge exemption from industry (narrow-based) index option position limits which would allow PSE members and member organizations, as well as public customers, to exceed the established position limits for narrow-based index options by three times the established position limit for such index options, provided that the position is "hedged" with shares of at least 75% of the number of stocks comprising the index.<sup>1</sup>

<sup>6</sup> 17 CFR 200.30-3(a)(12) (1994).

<sup>1</sup> Position limits impose a ceiling on the number of option contracts which an investor or group of investors acting in concert may hold or write in each class of options on the same side of the market (i.e., aggregating long calls and short puts or long

The text of the proposed rule change is available at the Office of the Secretary, PSE and at the Commission.

**II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspect of such statements.

*(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change*

**Purpose**

The purpose of the proposed rule change is to establish a hedge exemption from the industry index option position limits established in PSE Rule 7.6(a).<sup>2</sup> Specifically, the PSE proposes to add Commentary .03 to PSE Rule 7.6, which will provide that industry index option positions may be exempt from established position limits for each contract "hedged" by an equivalent dollar amount of the underlying component securities or securities convertible into such components, provided that each option position to be exempted is hedged by a position in at least 75% of the number of component securities underlying the index, and that the underlying value of the option position does not exceed the value of the underlying portfolio. The value of the portfolio is: (a) the total market value of the net stock position,

puts and short calls). The PSE's proposal is identical to a proposal submitted by the Philadelphia Stock Exchange, Inc. ("PHLX"), See Securities Exchange Act Release No. 36380 (October 17, 1995), 60 FR 54403 (October 23, 1995) (File No. SR-PHLX-95-45).

<sup>2</sup> PSE Rule 7.6(a) provides the following position limits for industry index options: 5,500 contracts if, during the Exchange's semi-annual review, the Exchange determines that any single stock in the group accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; 7,500 contracts if the Exchange determines that any single stock in the group accounted, on average, for 20% or more of the index value for that any five stocks in the group together accounted, on average, for more than 50% of the index value, but that no single stock in the group accounted, on average, for 30% or more of the index value, during the 30-day period immediately preceding the review; or 10,500 contracts if the Exchange determines that the above conditions have not occurred.